

# Fiscal Note

*Fiscal Services Division*



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**SF 412** – Small Business Health Care Tax Credit (LSB 1223SV)  
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Fiscal Note Version – New

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## **Description**

**Senate File 412** creates a new health insurance income tax credit for small businesses. Small business is defined as a business with fewer than 25 full-time equivalent employees. The tax credit is equal to 25.0% of the federal Small Business Health Care Tax Credit created as part of the Patient Protection and Affordable Care Act of 2010. The new State tax credit applies retroactively to January 1, 2013.

## **Background**

The federal tax credit is available to employers that cover at least 50.0% of the cost of single healthcare coverage for all employees. The employer must also have fewer than 25 full-time equivalent employees (FTEs). The employees must have average wages of less than \$50,000 a year. The tax credit is equal to a percent of the premiums an employer pays for qualified health insurance.

The federal credit is available to private businesses and nonprofits. The federal tax credit is not refundable for a for-profit business but any unused credit may be carried forward and backward to additional tax years. The credit is generally refundable for nonprofits. The federal credit works on a sliding scale. Businesses with fewer employees receive a larger percentage credit. The proposed Iowa credit will equal 25.0% of the federal credit received by the employer, beginning with the employer's 2013 federal tax year. The State credit is refundable.

## **Assumptions**

The Congressional Joint Committee on Taxation provides a national estimate of the total tax credits small business will receive through the Small Business Health Care Tax Credit for federal fiscal years 2013 through 2017. The estimates for the entire U.S., on a federal fiscal year basis, are:

- FFY 2013 = \$1.8 billion
- FFY 2014 = \$2.6 billion
- FFY 2015 = \$3.6 billion
- FFY 2016 = \$0.9 billion
- FFY 2017 = \$1.9 billion

Iowa's share of national businesses with fewer than 25 employees is assumed to equal 1.09% of the U.S. total. Therefore, the percent of the national estimate assigned to Iowa is 1.09%.

The projected fiscal impact assumes that Iowa credits will first be earned for the 12 months beginning January 2013, and those 12 months will result in the FY 2014 fiscal impact. Future fiscal year impacts will equal the projected tax credits generated through the activity of the previous calendar year.

### **Fiscal Impact**

Redemption of the new Small Employer Health Insurance Tax Credit created in this Bill is projected to reduce net General Fund revenue by the amounts in the following table.

<b>Small Employer Health Insurance Tax Credit</b>		
In millions of dollars		
	<u>General Fund Revenue Impact</u>	
FY 2014	\$	-5.5
FY 2015		-7.8
FY 2016		-8.0
FY 2017		-3.1
FY 2018		-1.1

### **Sources**

Iowa Department of Revenue  
Congressional Joint Committee on Taxation  
Federal Internal Revenue Service

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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